

Message Text

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CIEP-02 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02 IO-10

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NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 /109 W

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 534

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

UNCLAS ISLAMABAD 5276

E.O. 11652: N/A

TAGS: EINV, PK

SUBJECT: GOP POLICY ON COMPENSATION FOR NATIONALIZATION

REF: ISLAMABAD 5256

1. SUMMARY: BUDGET SPEECH JUNE 7 INCLUDED AN ANNOUNCEMENT THAT ANY FUTURE NATIONALIZATIONS WOULD BE COMPENSATED ON THE BASIS OF BREAK-UP VALUE OF THE ENTERPRISE OR MARKET VALUE OF SHARES, WHICHEVER IS HIGHER. COMPENSATION WILL BE IN THE FORM OF BONDS REDEEMABLE IN 2-15 YEARS DEPENDING ON CIRCUMSTANCES. THIS ANNOUNCEMENT WAS PROMPTED BY SUGGESTIONS FROM PRIVATE SECTOR LEADERS THAT SUCH A STATEMENT WAS NECESSARY TO ASSURE PRIVATE INVESTORS THAT THEY WOULD NOT SUFFER LOSSES SHOULD THERE BE ANY FURTHER EXPANSION OF THE PUBLIC SECTOR. END SUMMARY.

2. FINANCE MINISTER HANIF'S BUDGET SPEECH INCLUDED FOLLOWING ANNOUNCEMENT OF A NEW GOP POLICY ON PAYMENT OF COMPENSATION IN THE EVENT OF NATIONALIZATION:

3. BEGIN TEXT: IN FUTURE, COMPENSATION IN RESPECT OF A NATIONALIZED INDUSTRIAL UNDERTAKING WILL BE PAID ON THE BASIS OF BREAK-UP VALUE OR MARKET VALUE OF THE SHARE, WHICHEVER IS HIGHER. THE MARKET VALUE WILL, HOWEVER, BE TAKEN INTO ACCOUNT ONLY IF THE SHARE HAS BEEN TRADED FOR
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A PERIOD OF NOT LESS THAN 3 YEARS BEFORE NATIONALIZATION

AND THERE HAS BEEN A MINIMUM TURNOVER OF 30 PERCENT OF THE TOTAL NUMBER OF SHARES. THE MARKET VALUE WILL BE THE AVERAGE PRICE AT WHICH THE SHARE WAS TRADED DURING THIS PERIOD. FOR THE COMPUTATION OF COMPENSATION, AN INTER-MINISTERIAL ADMINISTRATIVE AGENCY WILL BE SET UP. THE DECISIONS TAKEN BY THE AGENCY WILL BE APPEALABLE TO A SPECIAL ADMINISTRATIVE APPELLATE BOARD. COMPENSATION WOULD BE PAID IN THE FORM OF BONDS REDEEMABLE ON THE EXPIRY OF A PERIOD OF NOT MORE THAN 15 YEARS. TO HELP THE SMALL INVESTOR, WHOSE HOLDING OF SHARES WAS VALUED AT NOT MORE THAN RS. 5,000 (DOL\$500), THE COMPENSATION BONDS RECEIVED BY HIM WILL BE REDEEMED WITHIN A PERIOD OF TWO YEARS. MOREOVER, IF A HOLDER OF COMPENSATION BONDS MAKES INVESTMENT IN A NEW APPROVED INDUSTRY, THE BONDS HELD BY HIM WILL BE REDEEMED AT THE END OF THREE YEARS FROM THE DATE OF HIS INVESTMENT, TO THE EXTENT OF THE AMOUNT INVESTED BY HIM. END TEXT.

4. ANNOUNCEMENT WAS MADE IN CONTEXT OF MEASURES NEEDED TO ENCOURAGE PRIVATE INVXSTMENT. HANIF WAS ASKED, AT PRESS CONFERENCE THE NEXT DAY, WHY THE ANNOUNCEMENT HAD BEEN MADE AT THIS TIME IN VIEW OF GOVERNMENT'S COMMITMENT NOT TO NATIONALIZE ANY FURTHER INDUSTRIES DURING ITS PRESENT TERM. HIS REPLY WAS THAT THE NEW POLICY WAS INTRODUCED " TO MEET A GENERAL DEMAND AND TO REMOVE ANY TIME IN THE FUTURE." WVEN ASKED WHETHER A CONSTITUTIONAL GUARANTEE ABOUT THE SANCTITY OF PRIVATE INVESTMENT WOULD NOT HAVE AN EVENMORE BENEFICIAL EFFECT ON THE INVESTMENT CLIMATE, HE STATED THAT NATIONALIZATION WAS A " UNIVERSALLY ACCEPTED PRINCIPLE;" THE GOP WAS SIMPLY SPELLING OUT THE MANNER IN WHICH IT WOULD BE COMPENSATED.

5. MISSION COMMENTS WILL FOLLOW.
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